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PASS TO TREASURY FOR VIMAL ATUKORALA

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TAGS: EAID ECON PGOV AL
SUBJECT: ALBANIA: PARLIAMENT PASSES LOCAL GOVERNMENT BORROWING LAW

¶1. SUMMARY: On February 4, Albania's Parliament unanimously passed the Local Government Borrowing Law which gives cities the authority to borrow money from commercial banks to finance local development. The borrowing law is the latest milestone in the country's decentralization process and culminates almost two years of consensus building and law drafting, as well as a six-month period of municipal lobbying, supported by the USG through USAID. END SUMMARY.

¶2. The borrowing law's enactment stems from painstaking groundwork carried out by a USAID-sponsored working group comprising local and central government officials, private banks, and other stakeholders, to develop a policy for market-based borrowing in the context of public debt management. GOA officials were originally skeptical of granting local governments access to debt and credit instruments. Local governments were given fiscal autonomy less than ten years ago and central government officials were fearful of potential debt exposure and default risk. (Note: Albania received its first sovereign credit rating less then a year ago, a "B1" for debt obligations from Moody's Investor Service.)

¶3. The unalloyed enthusiasm of some mayors, who initially pushed for the fewest borrowing restrictions without regard to fiscal consequences, served only to feed GOA concerns. However, the USG-backed policy process, which drew on experiences of other Central European countries, helped officials overcome doubts while injecting a dose of fiscal realism among participating municipalities. The result was a pragmatic bill, drafted with the help of USG experts, which enjoyed broad political support and won the endorsement of large commercial lenders.

¶4. The borrowing law's debut was poorly timed; its submission to the GOA for approval coincided with the political standoff leading up to the February 2007 Albanian local elections. The draft law subsequently lingered for more than eight months. However, in September 2007 the Albanian Mayors' Association forced the bill to the attention of the Council of Ministers, where it was approved and sent forward to Parliament. The Association was represented in the parliamentary hearings on the bill by several mayors and the heads of the associations of municipalities and communes. Such lobbying efforts and open legislative committee hearings are unusual in Albania; new key laws originate more often from international requirements than from domestic interests and are typically drafted and passed without input from affected stakeholders.

¶5. The deliberations led to minor changes to the draft law and the debate then moved to Parliament which passed the law by unanimous vote last week, a show of bipartisan consensus from a body where bickering between the two major parties is the norm. Political control of cities in Albania is split between the ruling Democratic Party and opposition Socialist Party. Neither the majority nor the

opposition appeared willing to oppose a law that would benefit their bases in roughly equal measure.

¶6. Albania's new Local Borrowing Law marks a milestone for Albania's ten-year-old decentralization process. The two largest banks in Albania, Rafeissen Bank and Intesa Sao Paulo (the latter acquired the American Bank of Albania last year), have indicated that they are prepared to finance specific local government projects once the law goes into effect this March. The borrowing law is also a precondition for a new USAID project that is aimed at stimulating local economic development. With borrowing authority and fiscal regulations in place, the new project will assist ten municipalities to develop, in tandem with local business communities, credit-worthy plans for infrastructure and capital investment projects. Such projects have traditionally been out of reach for municipal budgets. The new law fits well within the broader framework of increasing municipal autonomy and establishes borrowing limitations approved by international donors.
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